

Mastech Digital Inc. Q-3 Earnings Call

October 31, 2018

Confirmation #13684478

Page 1



**MASTECH DIGITAL INC.**  
**Q3-2018 Earnings Conference Call**  
**October 31, 2018**  
**Confirmation#13684478**

**Operator:** Greetings, and welcome to the Mastech Digital Incorporated Q-3 earnings call. At this time, all participants are in a listen only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone key pad. As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Jennifer Lacey, Manager of Legal Affairs.

**Jennifer Lacey:** Thank you operator. And welcome to Mastech Digital's third quarter 2018 conference call. If you have not yet received a copy of our earnings announcement, it can be obtained from our website at [www.mastechdigital.com](http://www.mastechdigital.com). With me on the call on the call today

are Vivek Gupta, Mastech Digital Chief Executive Officer and Jack Cronin, our Chief Financial Officer. I would like to remind everyone that statements made during this call that are not historical facts, are forward-looking statements. These forward-looking statements include our financial growth, and liquidity projections, as well as statements about our plans, strategies, intentions, and beliefs concerning our business, cash-flows, costs in the markets in which we operate. Without limiting the fore-going, the words believe, anticipates, plans, expects, and similar expressions are intended to identify certain forward-looking statements. These statements are based on information currently available to us. So, we assume no obligation to update these statements as circumstances change. There are risks and uncertainties that could cause actual events to differ materially from these forward-looking statements, including those listed in the companies 2017 annual report on form 10-K, filed with the Securities and Exchange Commission and available on its web site at [www.sec.gov](http://www.sec.gov).

Additionally, management has elected to provide certain non-GAAP financial measures to supplement our financial results presented on a GAAP basis. Specifically, we will provide non-GAAP net income and Non-GAAP diluted earnings per share data, which we believe will provide greater transparency with respect to the key metrics used by management in operating our business. Reconciliations of these Non-GAAP financial measures to their comparable GAAP measures, are included in our earnings announcement which can be obtained from our web

site at [www.mastechdigital.com](http://www.mastechdigital.com). As a reminder, we will not be providing guidance during this call, nor will we provide guidance in any subsequent one-on-one meetings or calls. I will now turn the call over to Jack, for a review of our third quarter 2018 results.

**Jack Cronin:** Thanks Jen and good morning everyone. Revenues for the third quarter 2018 totaled \$44.3 million and represented a 13% increase compared to \$39.2 million in the third quarter of 2017. Our Data and Analytics Services segment, which was acquired on July 13, 2017, contributed \$5.8 million of revenue during the third quarter of 2018, which was slightly below last quarters revenue performance of \$6.1 million as several project start dates were pushed into Q-4. Activity levels for this segment remain healthy in Q-3, but like most project-based businesses, there is some inherent lumpiness in quarterly revenues due to the timing of project ends and project starts.

Our IT Staffing Services segment had excellent year-over-year organic growth of 10% in the third quarter of 2018, as our global consultant-base was higher by 94-consultants over the last 12-month period. Demand for our IT Staffing Services remained robust during the quarter, and we were able to expand our global headcount by 11-consultants during the third quarter, despite close to a 20% increase in assignments ends from Q-3 2017 levels.

Gross profits for the third quarter of 2018 totaled \$10.7 million and represented a 22% increase compared to \$8.8 million in the same period last year. Our gross margin percentage for the third quarter of 2018, was 24.2% of revenues, up from 22.5% in the third quarter of 2017, and in-line with the previous quarter's performance. Our Data and Analytics Services segment had gross margins of 44.5% of revenues, which was up nicely from 42.2% reported in the second quarter of 2018, a quarter that was impacted by a cost over-run on a completed fixed price project.

Our IT Staffing Services segment had third quarter gross margins of 21.1% compared to 20% in the 2017 third quarter. This 110-basis point improvement for the corresponding quarter last year reflected higher direct hire revenues, and higher margins on new assignments, largely those deploying digital technology skill-sets. GAAP net income for the third quarter of 2018, was \$1.6 million or \$0.14 per diluted share compared to a loss of (\$136,000) or (\$0.01) per diluted share in the third quarter of 2017.

Non-GAAP net income for Q-3, 2018, was \$2.2 million or \$0.20 per diluted share, compared to \$1.4 million or \$0.13 per diluted share in the corresponding quarter of 2017. Third quarter SG&A expense items not included in Non-GAAP financial measures, net of tax benefits, were 1; amortization of acquired intangible assets, 2; stock-based compensation; and 3; in the

2017 period, acquisition transaction expenses. And are detailed in our second earnings release which is available on our website. I should note that all earnings per share numbers have been recast for our 2 for 1 stock-split announced in July 2018.

Addressing our financial position, on September 30, 2018, we had approximately \$40 million of outstanding bank debt, net of cash balances on hand. And our borrowing availability was \$6.5 million under our existing revolver credit line. Our accounts receivable balance is of high quality, as indicated by our historically low levels of bad debt expense. However, disruptions and hiccups related to our sales to cash conversion processes, due to the implementation of our new cloud-based ERP system, definitely had an impact on our cash flows and accordingly our debt balances in Q-3 of 2018. We're hopeful that these teething issues will be behind us by the end of Q-4. I'll now turn the call over to Vivek for his comments.

**Vivek Gupta:** Good morning everyone. Thank you, Jack, for the detailed financial review of third quarter 2018. Clearly, another good quarter at Mastech Digital, despite some headwinds in both of our business segments. Our growth story continued in the third quarter with revenue and gross profit growth of 13% and 22%, respectively. Gross margins also expanded in both of our business segments during the quarter when compared to the same quarter in the previous year. What I'm particularly happy with, is the Company delivered \$0.20 Non-GAAP

earnings per share. Having said that, and as Jack mentioned, we did experience some teething pain related to our cloud ERP implementation. However, these transitory issues are outweighed by the long-term benefits of operating our business on a state-of-the-art technology platform.

Let me now share with you my thoughts on the performance of our two business segments during the third quarter of 2018. First, Data and Analytics Services, we continue to see good pipe-line demands for our D&A services and we secured a number of projects with some exciting new logo's during the quarter. However, several project wins were delayed, until fourth quarter, which had a negative impact on the quarter's revenue levels. As I've stated in our previous calls, our Data and Analytics Services business has inherent lumpiness due to it being mainly project-based and therefore, some fluctuation should be expected in revenues from quarter to quarter. I continue to be extremely confident in all aspects of this business.

Turning to our IT Staffing Services, we are firing on all cylinders in this segment. As Jack mentioned, organic revenues grew 10% in Q-3 on a year-over-year basis. We are adding nicely to our billable consultant-base. Gross margins have improved by 110-basis points from Q-3 2017, and our operating cost structure has stabilized from investments made in 2017. While the productivity continues to be at an all-time high, an increased level of project-ends, and elevated vacation down-time impacted growth in both billable consultant headcount, as well as

revenues in Q-3 of 2018. The tight labor market, particularly in the technology sector, is impacting assignment ends, due to consultant resignations. We believe that sustained higher productivity from our producers will help mitigate the impact of this market reality. We also feel that the level of project-ends during the quarter was abnormally high, notwithstanding the tight labor market. In summary, I continue to be excited about the prospects and future that lie ahead for Mastech Digital and will now open the session for your questions.

**Operator:** At this time, we'll be conducting a question and answer session. If you would like to ask a question, please press star one on your telephone key pad. A confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to remove your

Question from the queue. For participants using speaker equipment, it may necessary to pick up your handset before pressing the star keys. One moment please while we pull for questions.

Once again, if you would like to ask a question, please press star one on your telephone key pad. There are no questions at this time and I'd like to turn the call back to management.

Mastech Digital Inc. Q-3 Earnings Call

October 31, 2018

Confirmation #13684478

Page 8

**Vivek Gupta:** Thank you. If there are no questions, I would like to thank you for joining our call today and we look forward to sharing our fourth quarter 2018 results with you in early February. Thank you.

**Operator:** This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.